

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /115 W
-----080855Z 111151 /12

R 080711Z JUN 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4467
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY VIENNA
AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 2571

USEEC, USDEL MTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY,

VIENNA FOR ELLIS

PASS TREASURY AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAY 29-JUNE 4

1. SUMMARY: DOLLAR AND DM RATES AGAINST SWISS FRANC DECLINED
AS DEMAND ROSE FOR SWISS FRANCS. SWISS INTEREST RATES CONTINUE
TO RISE. SWISS NATIONAL BANK IS CONTINUING ITS POLICY TO LIMIT
ROLE OF SWISS FRANC AS INTERNATIONAL RESERVE CURRENCY. SNB IS
STUDYING POSSIBILITY OF EXPANDING DOMESTIC MONEY MARKET TO
BRING HOME MORE EURO-FRANC BUSINESS. VOTER OPINION IS DIVIDED
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ON ACCEPTANCE OF VALUE ADDED TAX. THE VOTE ON VAT WILL BE
HELD JUN 12. SNB END-MAY BALANCE SHEET SHOWS CURRENCY IN
CIRCULATION UP 5.8 PERCENT FROM END-MAY 1976. SNB ANNOUNCED
NEW AGREEMENT WITH BANKS ON CONDITIONS FOR ACCEPTING DEPOSITS
TO REDUCE RISKS OF CHIASSO-TYPE SCANDAL (BERN 2520). END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKETS WERE NERVOUS. DOLLAR

AND DM RATES AGAINST SWISS FRANC BOTH FELL; LOWEST DM RATE SINCE
 END-FEB. DEALERS ATTRIBUTED SF STRENGTH TO HIGHER SHORT-TERM
 DOMESTIC INTEREST RATES. ALSO, BANKS INCREASED THEIR FRANC
 LIQUIDITY, PERHAPS ANTICIPATING REACTION TO NEW SNB AGREEMENT
 ON DEPOSIT CONDITIONS. MARKET CALMED LATE FRIDAY WITH
 REPORTS OF IMPROVED US EMPLOYMENT RATE AND LOWER RISE IN
 WHOLESALE PRICES. GOLD PRICE FELL ABRUPTLY FOLLOWING IMF
 SALE. DEALERS SAW NO CLEAR TREND TO CURRENT BUYER DISINTEREST.
 RATES FOLLOW:

	5/31 (OPEN)	6/3 (CLOSE)
SPOT DOLLAR	2.5025	2.4858
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	2.01	1.40
TWO MONTHS	1.92	1.81
THREE MONTHS	2.09	1.85
SIX MONTHS	2.00	1.93
12 MONTHS	2.18	2.15
SF/DM	106.26	105.46
GOLD	143.00	141.50

3. CAPITAL AND MONEY MARKETS: MARKETS WERE NERVOUS AND
 LIQUIDITY WAS TIGHT AS BANKS MET MONTH-END REQUIREMENTS, SNB
 INFORMED BANKS IT WOULD PROVIDE SUBSTANTIALLY GREATER
 LIQUIDITY FOR END-JUN. STOCK PRICES WERE MIXED; BANK SHARES
 DECLINED FOLLOWING ANNOUNCEMENT OF SNB AGREEMENT WITH BANKS
 ON DEPOSIT CONDITIONS. SKA INDEX (1959 EQUALS 100) SLIPPED TO
 218.9. AVERAGE YIELD CONFEDERATION BONDS ROSE TO 4.48.
 CENTRAL OFFICE OF MUNICIPAL LOANS REPORTED SF 78 MILLION LOAN
 AT 4.5 PERCENT WAS UNDER-SUBSCRIBED; UNDERWRITING BANKS WERE
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OBLIGED TO TAKE SUBSTANTIAL PORTION. WINTERTHUR MILCHVERBAND
 LOAN OF SF 40 MILLION AT 4.75 PERCENT WAS ALSO UNDER-
 SUBSCRIBED. NORGES KOMMUNALBANK, OSLO ANNOUNCED SF 20 MILLION
 LOAN AT 5.75 PERCENT INTEREST.

4. SWISS FRANC AS RESERVE CURRENCY: SNB ECONOMICS DIR, MARTIN
 THOMAN, SAID SNB'S POLICY IS TO LIMIT INTERNATIONALIZATION OF
 SWISS FRANC OR AT LEAST TO CONTROL THIS DEVELOPMENT. HE
 ESTIMATED SF 10 BILLION IS USED FOR INTERNATIONAL RESERVES,
 THOUGH THIS IS LARGELY UNDER CONTROL BECAUSE OF ASSURANCES FROM
 IMF AND COOPERATION WITH OTHER CENTRAL BANKS. SOLE EXCEPTION
 IS SF INVESTMENTS BY OPEC COUNTRY AUTHORITIES, MADE IN ORDER
 MEET RECOGNIZED NEED TO DIVERSITY INVESTMENTS AND TO HELP
 RECYCLE OIL EXPORT RECEIPTS THROUGH PURCHASE OF MEDIUM-TERM

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SF PRIVATE PLACEMENTS BY INTERNATIONAL DEVELOPMENT AGENCIES.
SNB ALSO REQUIRES CONVERSION OF CAPITAL EXPORTS INTO FOREIGN
EXCHANGE AND SO FAR HAS PREVENTED SF DENOMINATED SECURITIES
BEING ISSUED ABROAD. THOMANN SAID MEDIUM AND LONG-TERM
INTERNATIONAL FRANC CAPITAL MARKET IS NOT SIGNIFICANT BUT
SNB IS EXAMINATING LARGE VOLUME OF SF FACTORING DEALS. HE
SAID SHORT-TERM EURO-FRANC MARKET DECLINED FROM SF 56
BILLION IN 1973 TO SF 40 BILLION IN 1975 AND 1976 DUE TO SNB
MEASURES TO SEM CAPITAL INFLOWS. SNB WILL RENEW 1976
AGREEMENT WITH BANKS NOT TO MAKE SF DEPOSITS OR DIRECT PLACE-
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MENTS IN SWITZERLAND IN NAME OF OR ON BEHALF OF THEIR
BRANCHES ABROAD. SNB BELIEVES STRONG EFFORTS TO CONTROL
INTERNATIONAL MONEY AND CAPITAL MARKETS COULD PUSH THOSE
TRANSACTIONS ABROAD WHERE THEY WOULD BE UNCONTROLLABLE.

THEREFORE, SNB CALLS ONLY FOR COORDINATION OF MONETARY POLICIES.
 SWISS ARE STUDYING EXPANSION OF DOMESTIC MONEY MARKET TO
 BEING PART OF EURO-FRANC BUSINESS HOME.

5. VALUE ADDED TAX: GOVT LAUNCHED BROAD INFO CAMPAIGN TO
 BUILD SUPPORT FOR INTRODUCTION OF VALUE ADDED TAX (VAT)
 WHICH VOTERS WILL BE ASKED TO APPROVE IN REFERENDUM JUN 12.
 TEN PERCENT VAT (3 PERCENT ON FOOD ITEMS AND 6 PERCENT FOR
 HOTEL AND CAFE SERVICES) WOULD REPLACE 8.4 PERCENT
 TURNOVER TAX (ICHA) ON WHOLESALE TRANSACTIONS. GOVT SAYS VAT
 IS NEEDED FOR SF 2.5 BILLION IN ADDITIONAL REVENUES TO BALANCE
 FEDERAL BUDGET BY 1979. (BERN 722). FOUR LARGEST POLITICAL
 PARTIES AND MAJOR LABOR FEDERATION SUPPORT VAT. OPPOSING
 ARE EXTREME LEFT AND RIGHT WHO URGE LOOK FOR NEW REVENUE
 SOURCES AND CUTS IN EXPENDITURES. OTHERS OPPOSING ARE
 NATIONAL ORGANIZATION OF WIDOWS, ORPHANS AND AGED,
 PRGANIZATION OF CAFE OWNERS AND INDEPENDENT PARTY. RECENT
 POLL SHOWED VOTERS DIVIDED 25 PERCENT FOR TO 25 PERCENT
 AGAINST WITH 50 PERCENT UNDECIDED. HOWEVER, SOME 53 PERCENT
 OF SWISS VOTERS BELIEVE THEY ALREADY PAY TOO MANY TAXES. IF
 VAT IS DEFEATED, GOVT REPORTEDLY WILL RESORT TO SO FAR
 UNDEFINED EMERGENCY MEASURES TO BALANCE BUDGET.

6. SWISS NATIONAL BANK BALANCE SHEET: SNB END-MAY BALANCE
 SHEET TOTAL WAS DOWN 0.8 PERCENT FROM APR, REFLECTING MORE
 RESTRAINED MONETARY POLICY. SINGIFICANTLY, NOTES IN CIRCULATION
 INCREASED 5.8 PERCENT COMPARED END-APR 1976. SNB TOLD BANKS
 IT WOULD PERMIT GIRO ACCOUNTS (DOWN 5.8 PERCENT FROM APR) TO
 RISE TO SF 10.3 MILLION FOR THEIR END OF JUN REQUIREMENTS.

MAY (CHANGE FROM APR 29) (MISSIONS OF SWISS FRANCS)

ASSETS

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GOLD	11,904	-	-
FOREIGN EXCHANGE	12,258	DOWN	223
ROOSA BONDS	4,756	DOWN	88
DISCOUNTED PAPER	1,228	UP	36
LOMBARD LOANS	418	DOWN	29
OTHER	941	UP	41

LIABILITIES

NOTES IN CIRCULATION	18,966	UP	40
GIRO ACCOUNTS	6,718	DOWN	233
STERILIZATION ORDERS	858	UP	429
OTHER	4,963	DOWN	499
BALANCE SHEET TOTAL	31,505	DOWN	263.

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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